

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

EPISTAR CORPORATION,

Plaintiff and Counterclaim
Defendant,

v.

PHILIPS LUMILEDS LIGHTING COMPANY,
LLC,

Defendant and
Counterclaimant.

No. C 07-5194 CW

ORDER DENYING
DEFENDANT'S
MOTION FOR
SUMMARY JUDGMENT
AND GRANTING IN
PART AND DENYING
IN PART
DEFENDANT'S
MOTION FOR
JUDGMENT ON THE
PLEADINGS

Defendant Philips Lumileds Lighting Company has filed a motion for summary judgment on Plaintiff Epistar Corporation's breach of contract claim and a motion for judgment on the pleadings with respect to Epistar's claims for unfair competition and tortious interference. Epistar opposes the motions. The motions were heard on August 7, 2008. After the hearing the parties submitted supplemental briefs regarding Epistar's federal unfair competition claims. Having considered all of the parties' papers, the Court

1 denies Lumileds' motion for summary judgment and grants in part and
2 denies in part its motion for judgment on the pleadings.

3 BACKGROUND

4 As discussed in the Court's earlier order, this case is part
5 of a series of disputes between the parties relating to the alleged
6 infringement by Epistar of a light emitting diode (LED) patent,
7 United States Patent No. 5,008,718 ('718 patent), held by Lumileds.

8 In September, 1999, UEC filed suit against Defendant Lumileds,
9 Hewlett-Packard Co. and Agilent Technologies, seeking, among other
10 things, a declaration that UEC's products did not infringe the '718
11 patent. UEC and Lumileds settled that litigation in 2001 and
12 entered into two separate agreements: a settlement agreement (2001
13 UEC/Lumileds settlement agreement) and a patent license agreement
14 (UEC/Lumileds patent license agreement).

15 In 2002, Lumileds filed in this Court a complaint against
16 several of Epistar's customers, alleging infringement of the '718
17 patent (2002 suit). On January 6, 2003, Epistar filed suit in the
18 Central District of California against Lumileds, seeking a
19 declaration that its products did not infringe the '718 patent and
20 that the '718 patent was invalid (2003 suit). The 2003 suit was
21 transferred to this Court after Lumileds amended its complaint in
22 the 2002 suit to name Epistar as a defendant and to include
23 allegations that Epistar's products infringed the '718 patent. The
24 cases were consolidated and were resolved when Epistar and Lumileds
25 entered into a settlement agreement. The agreement included a
26 covenant by Lumileds not to sue Epistar for infringement of the
27 '718 patent based on Epistar's Omnidirectional Mirror Adhesive

1 (OMA) LED products and a license to Epistar to make, sell, use,
2 offer to sell and import AlGaInP absorbing-substrate LEDs (2004
3 Epistar/Lumileds settlement agreement).

4 In August, 2005, Epistar and UEC finalized a merger agreement
5 through which Epistar would acquire all of UEC's assets and
6 operations. The merger took effect on December 30, 2005 and UEC
7 was dissolved.

8 On November 4, 2005, Lumileds filed a complaint with the ITC
9 alleging, among other things, a violation of the Tariff Act of 1930
10 based on the import of certain LED products that infringe the '718
11 patent. In the Matter of Certain High-Brightness Light Emitting
12 Diodes and Products Containing Same, Inv. No. 337-TA-566. Epistar
13 was one of the respondents named in Lumileds' complaint. During
14 the course of the investigation, Lumileds alleged that Epistar's
15 OMA products infringed the '718 patent. The ITC made a final
16 determination that Epistar's OMA products infringe the '718 patent
17 and entered an exclusion order precluding Epistar from importing
18 its OMA LED products into the United States. Epistar appealed the
19 ITC's final determination to the Federal Circuit.

20 At the same time that it filed its complaint with the ITC,
21 Lumileds filed another complaint in this Court, alleging
22 infringement of patents including the '718 patent (2005 suit).
23 That case was stayed at Epistar's request pending resolution of the
24 ITC proceedings.¹

25 ¹The 2005 suit was stayed pursuant to 28 U.S.C. § 1659, which
26 provides,

27 In a civil action involving parties that are also
28

1 On October 10, 2007, Epistar filed the present complaint
2 alleging that, after the entry of the ITC final determination,
3 Lumileds sent false and misleading letters to Epistar's existing
4 and potential customers about the scope of the ITC's findings.
5 Those letters, Epistar argues, improperly suggest that the ITC
6 determined that all of Epistar's products infringe all three of the
7 patents it considered. Therefore, Epistar claims that the letters
8 constitute (1) unfair competition under the Lanham Act,
9 (2) intentional interference with Epistar's prospective economic
10 advantage, and (3) unfair competition in violation of California
11 Business and Professions Code § 17200. Epistar seeks to enjoin
12 Lumileds from continuing the allegedly misleading communications.
13 Epistar also asserts that Lumileds breached the covenant not to sue
14 contained in the 2004 Epistar/Lumileds settlement agreement by
15 filing the ITC complaint and the 2005 suit alleging infringement of
16 the '718 patent. Finally, Epistar seeks a declaration that the
17 2001 UEC/Lumileds settlement agreement became null and void when
18 Epistar acquired UEC and that the Epistar/Lumileds settlement
19 agreement controls.

20 Lumileds filed a motion to stay this action pending the final
21 resolution of its claims before the ITC. The Court granted it in
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23 parties to a proceeding before the United States
24 International Trade Commission under section 337 of
25 the Tariff Act of 1930, at the request of a party to
26 the civil action that is also a respondent in the
27 proceeding before the Commission, the district court
28 shall stay, until the determination of the Commission
becomes final, proceedings in the civil action with
respect to any claim that involves the same issues
involved in the proceeding before the Commission.

1 part, denied it in part and deferred ruling in part. Specifically,
2 the Court granted the stay with respect to the declaratory relief
3 claim regarding the UEC/Lumileds patent license agreement, denied
4 the stay with respect to the claims for injunctive relief and
5 deferred ruling with respect to the breach of contract claim. The
6 Court deferred ruling to allow Lumileds to bring the present motion
7 arguing that Epistar's abandonment of its license defense before
8 the ITC operates as a waiver of its current breach of contract
9 claim in this case. However, the Court advised the parties that it
10 would stay the claim if it found that it was not waived.

11 DISCUSSION

12 I. Summary Judgment

13 Summary judgment is properly granted when no genuine and
14 disputed issues of material fact remain, and when, viewing the
15 evidence most favorably to the non-moving party, the movant is
16 clearly entitled to prevail as a matter of law. Fed. R. Civ. P.
17 56; Celotex Corp. v. Catrett, 477 U.S. 317, 322-23 (1986);
18 Eisenberg v. Ins. Co. of N. Am., 815 F.2d 1285, 1288-89 (9th Cir.
19 1987).

20 The moving party bears the burden of showing that there is no
21 material factual dispute. Therefore, the court must regard as true
22 the opposing party's evidence, if it is supported by affidavits or
23 other evidentiary material. Celotex, 477 U.S. at 324; Eisenberg,
24 815 F.2d at 1289. The court must draw all reasonable inferences in
25 favor of the party against whom summary judgment is sought.
26 Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574,
27 587 (1986); Intel Corp. v. Hartford Accident & Indem. Co., 952 F.2d
28

1 1551, 1558 (9th Cir. 1991).

2 Material facts which would preclude entry of summary judgment
3 are those which, under applicable substantive law, may affect the
4 outcome of the case. The substantive law will identify which facts
5 are material. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248
6 (1986).

7 A. Waiver

8 Res judicata, or claim preclusion, prohibits the re-litigation
9 of any claims that were raised or could have been raised in a prior
10 action. Western Radio Servs. Co., Inc. v. Glickman, 123 F.3d 1189,
11 1192 (9th Cir. 1997) (citing Federated Dep't Stores, Inc. v.
12 Moitie, 452 U.S. 394, 398 (1981)). The purpose of the doctrine is
13 to "relieve parties of the cost and vexation of multiple law suits,
14 conserve judicial resources, and, by preventing inconsistent
15 decisions, encourage reliance on adjudication." Marin v. HEW,
16 Health Care Financing Agency, 769 F.2d 590, 594 (9th Cir. 1985)
17 (quoting Allen v. McCurry, 449 U.S. 90, 94 (1980)). Res judicata
18 operates where there is "1) an identity of claims, 2) a final
19 judgment on the merits, and 3) identity or privity between
20 parties." Western Radio, 123 F.3d at 1192 (citing Blonder-Tongue
21 Lab. v. University of Ill. Found., 402 U.S. 313, 323-324 (1971)).

22 As in its motion to stay, Lumileds again argues that it is
23 entitled to judgment on Epistar's breach of contract claim because
24 Epistar raised the covenant not to sue as a defense in the ITC
25 proceeding, but elected to abandon it on the fourth day of the
26 hearing before the ITC and therefore has now waived it. Epistar
27 counters that its decision to abandon its covenant not to sue

1 defense in the ITC has no preclusive effect because the ITC's
2 determinations on issues of patent law are not binding on this
3 Court. See, e.g., Texas Instruments, Inc. v. Int'l Trade Comm'n,
4 851 F.2d 342, 344 (Fed. Cir. 1988); Tandon Corp. v. Int'l Trade
5 Comm'n, 831 F.2d 1017, 1019 (Fed. Cir. 1987).

6 Lumileds argues that this rule restricting the preclusive
7 effect of ITC determinations does not apply here because the
8 covenant-not-to-sue defense is a "non-patent issue." Motion at 13.
9 Therefore, Lumileds asserts that Epistar's waiver of the covenant-
10 not-to-sue defense in the ITC should preclude it from bringing in
11 this court a breach of contract claim based on the covenant not to
12 sue. Lumileds cites Telectronics Proprietary, Ltd. v. Medtronic,
13 Inc., 687 F. Supp. 832 (S.D.N.Y. 1988), where a court in the
14 Southern District of New York distinguished between different types
15 of defenses to patent infringement. The Telectronics court
16 explained, "Unlike invalidity and unenforceability, noninfringement
17 is not a defense based on the validity of a patent. Rather it is a
18 defense based on a contractual right to use the patent, or on
19 defendant's lack of use of the patent." Id. at 846 n.40.
20 Therefore, the Telectronics court found that "the ITC's
21 determination as regards the existence of a license under a patent
22 . . . was not one of the validity of a patent but of the existence
23 of a contract" and should be "accorded issue-preclusive effect."
24 Id. at 846.

25 However, as Epistar points out, a more recent Federal Circuit
26 decision held that "accused infringers can raise whatever defenses
27 they believe are justified, regardless whether they previously
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1 raised them and lost in the ITC." Texas Instruments Inc. v.
2 Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996).
3 Therefore, the Court finds that Epistar's decision in the ITC
4 proceedings to abandon its defense based on the covenant not to sue
5 does not preclude it from bringing the present breach of contract
6 claim. Moreover, even if abandoning the covenant not to sue
7 defense were sufficient to constitute waiver of the breach of
8 contract claim, significant factual questions remain with respect
9 to Lumileds' involvement in Epistar's decision to abandon the
10 defense. One interpretation of the communications is that the
11 parties agreed that Epistar could withdraw its covenant not to sue
12 defense from the ITC proceedings and, instead, pursue a breach of
13 contract claim in the district court. See Huang Decl., Ex. A at 2.

14 Thus, Lumileds' motion for summary adjudication of this issue
15 must be denied.

16 B. Scope of the Covenant

17 Lumileds previously argued that the breach of contract claim
18 should be stayed because resolving the merits of the claim would
19 require a technical analysis of which products are properly
20 classified as OMA products covered by the covenant not to sue. It
21 now argues that the question of whether the products at issue
22 before the ITC are covered by the covenant "does not require a
23 detailed discussion of the '718 patent or LED technology" and can
24 be resolved at this time on summary judgment.

25 Paragraph 4.2 of the 2004 settlement agreement resolving the
26 2002 and 2003 suits provides,

27 Lumileds agrees not to sue for infringement of the
28

1 Licensed Patents based exclusively on Epistar's current
2 Omnidirectional Mirror Adhesive ("OMA") products that
3 have the product numbers [listing fourteen specific
4 product numbers] ("OMA Products"). This covenant does
5 not apply expressly, by implication, estoppel, or
6 otherwise, to any patent other than the Licensed
7 Patents. This covenant also does not apply, expressly,
8 by implication, estoppel, or otherwise to (1) any
9 Epistar OMA product that is different unless such
10 difference is insubstantial from the OMA Products
11 defined above, regardless of whether such different OMA
12 product is referred to by a product number or
13 designation included in this paragraph . . . The
14 parties agree for purposes of this Agreement that a
15 change in any surface area of a chip of less than 20%
16 or a change in bond pad area of less than 50% is
17 permitted with regard to the OMA Products.

18 Scher Decl., Ex. 1 ¶ 4.2.

19 Lumileds argues that Epistar's interrogatory responses and
20 Rule 30(b)(6) witness testimony in the 2002 and 2003 suits
21 demonstrate that there are "substantial" or "significant"
22 differences between the OMA products covered by the covenant not to
23 sue and the OMA products at issue in the ITC action and the stayed
24 2005 suit.

25 However, as Epistar points out, there remain questions of fact
26 with respect to the proper construction of term "insubstantial" as
27 used in the 2004 settlement agreement. Lumileds argues that the
28 term "insubstantially different" should be construed to exclude
29 "any product that is 'significantly' different." Reply at 15.
30 However, the fact that Epistar's witnesses have used the word
31 "significant" to describe changes in the company's products is not
32 enough to establish as a matter of law that the changes were not
33 "insubstantial" as the word is used in the contract. The parties
34 also dispute what information Lumileds had about Epistar's products
35 at the time it entered into the 2004 settlement agreement and

1 therefore which products Lumileds considered Epistar's "current"
2 OMA products for purposes of the agreement.

3 For the foregoing reasons, the Court denies Lumileds' motion
4 for summary judgment. The breach of contract claim is stayed to be
5 resolved along with the declaratory relief claim upon resolution of
6 the ITC action.

7 II. Judgment on the Pleadings

8 Federal Rule of Civil Procedure 12(c) provides, "After the
9 pleadings are closed but within such time as not to delay the
10 trial, any party may move for judgment on the pleadings." Judgment
11 on the pleadings is proper when the moving party clearly
12 establishes on the face of the pleadings that no material issue of
13 fact remains to be resolved and that it is entitled to judgment as
14 a matter of law. Hal Roach Studios, Inc. v. Richard Feiner & Co.,
15 Inc., 896 F.2d 1542, 1550 (9th Cir. 1990). In considering a motion
16 for judgment on the pleadings, the Court must accept the
17 allegations of the non-moving party as true; the allegations of the
18 moving party which have been denied are assumed to be false. Id.

19 Lumileds argues that it is entitled to judgment on the
20 pleadings with respect to Epistar's three claims based on
21 allegations that Lumileds sent letters that

22 mislead [Epistar's] customers and potential customers
23 into, inter alia, believing that the ITC has
24 determined that all of Epistar's products infringe all
25 of the patents that were at issue in the ITC, when in
26 fact the ITC found that Epistar did not infringe two
27 of the patents at issue and only six of Epistar's
28 products were even considered by the ITC in the
investigation. Hence, Lumileds' statements falsely
suggest that Epistar is barred from importing any
products into the United States and that the six
products at issue infringe two patents they were

1 expressly found not to infringe.

2 Complaint ¶ 12. Lumileds contends that the letters upon which
3 Epistar's claims are based are protected by the California
4 litigation privilege and federal patent law immunity for patent
5 assertions that are not "objectively baseless." In the
6 alternative, Lumileds argues that the claims fail as a matter of
7 law.

8 Although the letters are not attached to the complaint,
9 Lumileds relies upon them and submits them with its motion.
10 Epistar argues that the Court should not consider any materials
11 outside of the pleadings in deciding the motion. When deciding a
12 motion for judgment on the pleadings, the Court is generally
13 confined to consideration of the allegations in the pleadings.
14 However, as with a motion to dismiss, the Court may consider
15 documents "whose contents are alleged in a complaint and whose
16 authenticity no party questions, but which are not physically
17 attached to the pleading." Branch v. Tunnell, 14 F.3d 449, 454
18 (9th Cir. 1994) (motion to dismiss); Dent v. Cox Commc'n Las Vegas,
19 Inc., 502 F.3d 1141, 1143 (9th Cir. 2007) (motion for judgment on
20 the pleadings). Epistar does not contest the authenticity of the
21 letters, which it previously filed as evidence in related
22 litigation.

23 A. Litigation Privilege

24 California Civil Code section 47(b) provides that
25 communications made in or related to judicial proceedings are
26 absolutely immune from tort liability. The California Supreme
27 Court explains that the purpose of the privilege is "to afford

1 litigants . . . the utmost freedom of access to the courts without
2 fear of being harassed subsequently by derivative tort actions."
3 Silberg v. Anderson, 50 Cal. 3d 205, 213 (1990). This Court has
4 previously stated, "The litigation privilege applies to any
5 communications (1) made in a judicial proceeding; (2) by litigants
6 or other participants authorized by law; (3) to achieve the objects
7 of the litigation; (4) that have some connection or logical
8 relation to the action." Sharper Image Corp. v. Target Corp., 425
9 F. Supp. 2d 1056, 1077 (N.D. Cal. 2006) (citing Silberg, 50 Cal. 3d
10 at 212). Once these requirements are met, § 47(b) operates as an
11 absolute privilege. Silberg, 50 Cal. 3d at 216. "Any doubt about
12 whether the privilege applies is resolved in favor of applying it."
13 Kashian v. Harriman, 98 Cal. App. 4th 892, 913 (2002).

14 The first prong of the litigation privilege test is quite
15 broad. It covers "any publication required or permitted by law in
16 the course of a judicial proceeding to achieve the objects of the
17 litigation, even though the publication is made outside the
18 courtroom and no function of the court or its officers is
19 involved." Silberg, 50 Cal. 3d at 216. For purposes of the second
20 prong, those non-litigants possessing a "substantial interest in
21 the outcome of the litigation" are "authorized participants" for
22 purposes of the litigation privilege. Costa v. Superior Court, 157
23 Cal. App. 3d 673, 678 (1984).

24 The California Supreme Court "has characterized the third
25 prong of the foregoing [Silberg] test . . . as being 'simply part'
26 of the fourth, the requirement that the communication be connected
27 with, or have some logical relation to, the action." Rothman v.

1 Jackson, 49 Cal. App. 4th 1134, 1141 (1996) (citing Silberg). The
2 "'connection or logical relation' which a communication must bear
3 to litigation in order for the privilege to apply, is a functional
4 connection," i.e., the communication must "function as a necessary
5 or useful step in the litigation process and must serve its
6 purposes." Id. at 1146 (emphasis omitted). The test "cannot be
7 satisfied by communications which only serve interests that happen
8 to parallel or complement a party's interests in the litigation,"
9 including vindication in the court of public opinion. Id. at 1147.
10 Instead, the "connection or logical relation" prong of the test
11 "can be satisfied only by communications which function
12 intrinsically, and apart from any consideration of the speaker's
13 intent, to advance a litigant's case." Id. 1148.

14 Epistar contends that Lumileds' letters are not protected by
15 the litigation privilege "because Lumileds did not intend to
16 litigate against Epistar's customers." Opposition at 13. However,
17 the litigation privilege "is not restricted to the parties in the
18 lawsuit but need merely be connected or related to the
19 proceedings." Adams v. Superior Court, 2 Cal. App. 4th 521, 529
20 (1992) (citing Profile Structures, Inc., v. Long Beach Bldg.
21 Material Co., 181 Cal. App. 3d 437, 442 (1986)). Companies that
22 purchased Epistar's products, incorporated them into their own and
23 intended to import those products into the United States have a
24 "substantial interest" in the ITC's ruling that certain Epistar
25 products cannot be imported into the United States. Costa, 157
26 Cal. App. 3d at 678. Moreover, Epistar's discussion of specific
27 requirements for applying the litigation privilege to pre-

1 litigation demand letters is misplaced. The litigation upon which
2 Lumileds relies in arguing that its communications are protected by
3 the privilege is the ITC proceeding, not the potential for future
4 litigation against Epistar's customers.

5 Epistar next contends that its claims are based on "Lumileds'
6 bad faith conduct, not its letter communications." Opposition at
7 15. However, the act of mailing letters to Epistar's customers
8 without reference to the information communicated in those letters
9 cannot support Epistar's claims. Epistar also argues that these
10 unfair competition claims are based on "other activities" beyond
11 the letters discussed above. Opposition at 8. However, the
12 complaint simply alleges, "After the entry of the Final
13 Determination in the ITC, Lumileds began, among other things,
14 sending letters that are misleading . . ." Complaint ¶ 12. The
15 complaint does not discuss any other action by Lumileds.

16 For the foregoing reasons, the Court finds that Lumileds'
17 letters are protected by the litigation privilege and grants
18 judgment on the pleadings with respect to Epistar's claims of
19 California Business and Professions Code § 17200 unfair
20 competition, and intentional interference with prospective economic
21 advantage.

22 B. Federal patent law immunity

23 Lumileds argues that Epistar's unfair competition claim under
24 § 43 of the Lanham Act also fails because Epistar has not alleged
25 facts sufficient to establish that Lumileds acted in bad faith when
26 it sent the letters discussed above. In Zenith Electronics Corp.
27 v. Exzec, Inc., the Federal Circuit held that "before a patentee
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1 may be held liable under § 43(a) for marketplace activity in
2 support of its patent, and thus be deprived of the right to make
3 statements about potential infringement of its patent, the
4 marketplace activity must have been undertaken in bad faith." 182
5 F.3d 1340, 1353 (Fed. Cir. 1999). In order to establish that
6 Lumileds' letters were sent in bad faith, Epistar must demonstrate
7 that the statements made in those letters were "objectively
8 baseless." See GP Indus., Inc. v. Eran Indus., Inc., 500 F.3d
9 1369, 1375 (Fed. Cir. 2007); Globetrotter Software, Inc. v. Elan
10 Computer Group, Inc., 362 F.3d 1367, 1375 (Fed. Cir. 2004).

11 Although the ITC determined that "Epistar's family of MB, GB,
12 and OMA LEDs infringe the asserted claims of the '718 patent,"
13 Epistar asserts that, at the time Lumileds sent out the letters at
14 issue, Lumileds was aware that Epistar had developed a "design-
15 around" product that did not infringe. Therefore Epistar contends
16 that Lumileds' assertion that "all known versions of Epistar's OMA,
17 MB, and GB AlGaInP LEDs infringe Philips Lumileds' '718 patent" was
18 objectively baseless. Although Lumileds states that it was not
19 previously aware of the press release in which Epistar announced
20 the design-around product, Lumileds cited that press release in one
21 of its counterclaims filed in this Court in December, 2007.
22 Accepting Epistar's allegations as true, the Court finds that
23 material issues of fact remain to be resolved. Therefore, the
24 Court denies Lumileds' motion for judgment on the pleadings with
25 respect to Epistar's claim for Lanham Act unfair competition. This
26 claim is stayed to be decided along with the declaratory relief and
27 breach of contract claims upon resolution of the ITC action.

CONCLUSION

For the foregoing reasons, the Court DENIES Lumileds' motion for summary judgment and GRANTS in part and DENIES in part its motion for judgment on the pleadings (Docket Nos. 54, 58). The remaining claims are stayed pending the resolution of the ITC proceedings.

IT IS SO ORDERED.

Dated: 8/26/08



CLAUDIA WILKEN
United States District Judge